

HOMELAND ENERGY GROUP LTD.

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

JUNE 30, 2009

(Stated in Canadian Dollars)

These Interim Statements have not been reviewed by an auditor and are unaudited. They include all material adjustments, consisting of normal and recurring items, that management considers necessary for fair presentation of the consolidated financial position, results of operations and cash flows.

HOMELAND ENERGY GROUP LTD.
INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
(Stated in Canadian Dollars)

	June 30, 2009	December 31, 2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,648,967	\$ 7,815,158
Restricted cash	572,408	499,616
Accounts receivable	4,169,830	3,062,008
Deposits and prepaid expenses	227,500	345,530
Inventory (note 7)	3,180,568	1,956,114
	12,799,273	13,678,426
Long-term Deposits and Prepaid Expenses	16,598	14,487
Investments (note 8)	9,689,784	11,121,315
Long-term Loans Receivable (note 9)	11,827,107	9,420,665
Mineral Properties (note 11)	25,213,906	15,090,267
Property and Equipment (note 10)	10,110,246	8,288,458
Other Assets (note 9(a))	460,689	460,689
	\$ 70,117,603	\$ 58,074,307
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 9,502,878	\$ 4,144,071
Current portion of credit facilities (note 12)	20,099,700	2,228,690
	29,602,578	6,372,761
Credit Facilities (note 12)	-	7,906,284
Asset Retirement Obligations	463,362	404,438
	30,065,940	14,683,483
Shareholder's Equity		
Capital Stock (note 13)	85,118,057	42,269,384
Capital Stock to be Issued	-	34,645,799
Share Purchase Warrants (note 13 (f))	-	344,000
Contributed Surplus (note 13 (g))	7,631,768	5,498,317
	92,749,825	82,757,500
Deficit	(49,506,594)	(32,749,166)
Accumulated Other Comprehensive Loss	(3,191,568)	(6,617,510)
	(52,698,162)	(39,366,676)
	\$ 70,117,603	\$ 58,074,307

Going Concern (note 2)

Commitments and Contingencies (notes 12 and 17)

Approved on behalf of the Board:

Signal: "B.V.N. Rao"

B.V.N. Rao, Director

Signed: "Jeff Lowe"

Jeff Lowe, Director

(The accompanying notes are an integral part of these interim consolidated financial statements.)

HOMELAND ENERGY GROUP LTD.
INTERIM CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT (UNAUDITED)
(Stated in Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
		(As restated - see note 19)		(As restated - see note 19)
Expenses				
Management and administrative expenses	\$ 1,823,629	\$ 852,604	\$ 2,718,235	\$ 1,487,253
Stock-based compensation	140,576	1,070,974	1,789,451	1,251,127
Interest and accretion expense	551,739	824	948,128	73,794
Office and general	479,249	384,869	934,084	699,207
Travel and accomodation	274,234	341,837	584,772	655,446
Professional and consulting fees	57,633	812,906	576,667	952,489
Legal and audit fees	228,044	227,393	480,589	494,609
Foreign exchange loss	434,161	269,157	433,978	956,724
Directors' fees	262,500	29,953	292,500	61,534
Amortization	79,873	45,350	153,874	78,339
Transfer agent and filing fees	8,005	30,062	54,666	257,044
	4,339,643	4,065,929	8,966,944	6,967,566
Loss before Other Items	(4,339,643)	(4,065,929)	(8,966,944)	(6,967,566)
Other Items				
Interest Income	396,440	87,700	812,516	146,123
Other income	46,200	-	63,011	-
Equity loss from investment in Homeland Uranium Inc.	(128,024)	(240,986)	(190,037)	(631,035)
Loss on sale of investments (note 8 (a))	(2,077,023)	-	(2,077,023)	-
Transaction break fee	-	-	(6,348,951)	-
Loan placement fee (note 13 (b))	-	-	(50,000)	-
Write down of investments	-	96,322	-	(642,447)
Loss before Incomes Taxes	(6,102,050)	(4,122,893)	(16,757,428)	(8,094,925)
Income tax recovery	-	(21,205)	-	66,585
Net Loss for the Period	(6,102,050)	(4,144,098)	(16,757,428)	(8,028,340)
Deficit - Beginning of Period	(43,404,544)	(12,609,464)	(32,749,166)	(8,725,222)
Deficit - End of Period	\$ (49,506,594)	\$ (16,753,562)	\$ (49,506,594)	\$ (16,753,562)
Loss per share - Basic and Diluted	\$ (0.02)	\$ (0.03)	\$ (0.07)	\$ (0.06)
Weighted Average Number of Basic Common				
Shares Outstanding During the Period	274,650,688	148,118,577	236,285,359	143,618,671

(The accompanying notes are an integral part of these interim consolidated financial statements.)

HOMELAND ENERGY GROUP LTD.
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS AND
ACCUMULATED OTHER COMPREHENSIVE LOSS (UNAUDITED)
(Stated in Canadian Dollars)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	2009	2008	2009	2008
Comprehensive Loss		(As restated - see note 19)		(As restated - see note 19)
Net loss for the period	\$ (6,102,050)	\$ (4,144,098)	\$ (16,757,428)	\$ (8,028,340)
Unrealized gain on available-for-sale securities during the period	1,189,445	-	3,425,941	-
Comprehensive Loss	\$ (4,912,605)	\$ (4,144,098)	\$ (13,331,487)	\$ (8,028,340)

Accumulated Other Comprehensive Income

Balance - Beginning of Period	\$ (6,617,510)	\$ -	\$ (6,617,510)	\$ -
Unrealized gain on available-for-sale securities during the period	1,189,445	-	3,425,941	-
Balance - End of Period	\$ (5,428,065)	\$ -	\$ (3,191,569)	\$ -

(The accompanying notes are an integral part of these interim consolidated financial statements.)

HOMELAND ENERGY GROUP LTD.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Stated in Canadian Dollars)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	2009	2008	2009	2008
		(As restated - see note 19)		(As restated - see note 19)
Cash Flows From (Used In):				
Operating Activities:				
Net loss for the period	\$ (6,102,050)	\$ (4,144,098)	\$ (16,757,428)	\$ (8,028,340)
Items not affecting cash -				
Amortization	79,873	45,350	153,874	78,339
Stock-based compensation	140,576	1,070,974	1,789,451	1,251,127
Foreign exchange	58,821	(298,442)	(257,333)	559,354
Equity loss from investment in Homeland Uranium Inc.	128,024	240,986	190,037	631,035
Future income taxes	-	21,205	-	(66,585)
Accrued interest and accretion expense	560,638	-	1,324,249	35,771
Accrued interest and accretion income	(284,682)	-	(682,992)	-
Issuance of common shares, for break fee	-	-	5,050,000	-
Issuance of common shares, for loan issuance fee	-	-	50,000	-
Loss on sale of investment	2,077,023	-	2,077,023	-
Write-down investments	-	(96,322)	-	642,447
	(3,341,777)	(3,160,347)	(7,063,119)	(4,896,852)
Change in non-cash working capital items	(963,292)	(2,705,862)	(359,758)	(2,674,431)
	(4,305,069)	(5,866,209)	(7,422,877)	(7,571,283)
Investing Activities:				
Long-term loans receivable	(287,783)	-	(351,618)	-
Mineral properties	(4,834,003)	(2,277,510)	(5,963,821)	(4,068,032)
Acquisition of property and equipment	(2,110,865)	(833,694)	(2,631,162)	(945,896)
Proceeds from sale of investments	2,590,413	-	2,590,413	-
Unrealized gain on disposal	-	29,119,920	-	29,119,920
Cash received on RIO	-	-	-	819,008
Provision of long-term loans	-	(7,535,625)	-	(7,247,790)
Increase in investments	-	(3,356,216)	-	(3,504,724)
	(4,642,238)	15,116,875	(6,356,188)	14,172,486
Financing Activities:				
Exercise of stock options, for cash	-	21,750	-	21,750
Proceeds from credit facilities	4,960,962	-	7,510,000	-
Issuance of common shares, for cash	-	-	3,155,302	2,400,000
Share issuance costs	-	-	(52,428)	(1,340,000)
	4,960,962	21,750	10,612,874	1,081,750
Net Increase (Decrease) in Cash and Cash Equivalents	(3,986,345)	9,272,416	(3,166,191)	7,682,953
Cash and Cash Equivalents - Beginning of Period	8,635,312	4,769,858	7,815,158	6,359,321
Cash and Cash Equivalents - End of Period	\$ 4,648,967	\$ 14,042,274	\$ 4,648,967	\$ 14,042,274

(The accompanying notes are an integral part of these interim consolidated financial statements.)

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Homeland Energy Group Ltd. (formerly known as Chrysalis Capital IV Corporation) ("Homeland" or the "Company") was incorporated under the *Canada Business Corporations Act* on October 12, 2006. The Company was set up as a capital pool company under the policies of the TSX Venture Exchange (the "Exchange") and was listed on the Exchange on February 12, 2007. Following the closing of its qualifying transaction on February 29, 2008, the principal business activity of the Company changed to "the acquisition, exploration, development and operation of energy related resource properties" primarily in Southern Africa, but with a broader focus of investigating appropriate opportunities globally. The Company is a development stage entity as defined by the Canadian Institute of Chartered Accountants Accounting Guideline 11.

Homeland is in the process of exploring and developing its mineral property interests in Southern Africa, with the sale of product from the Kendal Colliery near Witbank, South Africa having commenced in the third quarter of 2008. Homeland also owns an advanced-stage coal development project in South Africa (namely the Eloff Mineral Property) and a number of earlier-stage exploration properties in South Africa and Botswana.

The recoverability of the carrying value of Homeland's mineral properties, and indeed the Company's continued existence, is dependent upon the ability of the Company to preserve its interests in the underlying properties and to achieve profitable operations and/or to dispose of its interests in these mineral properties on an advantageous basis. Changes in future conditions could require material write downs in the carrying value of the mineral properties.

Although the Company has taken steps to verify and secure title to the mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company's title. Although management is not aware of any such agreements, transfers or defects, property title may be subject to unregistered prior agreements, claims or transfers and title may be affected by undetected defects. Assets located outside of North America are subject to the risk of foreign investment, including currency exchange fluctuations and restrictions, and to political uncertainty.

These unaudited interim consolidated financial statements include the assets, liabilities and operations of Homeland Energy Group Ltd. and its direct and indirect subsidiaries and were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Canadian dollar is the principal currency of the Company's business.

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

2. GOING CONCERN

These unaudited interim consolidated financial statements have been prepared on a going concern basis in accordance with Canadian GAAP, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

At June 30, 2009, the Company had cash and cash equivalents of \$4,648,967 and a working capital deficit of \$16,803,305. The Company does not have sufficient funds available to pay its trade payables and debt obligations due under the Nedbank Limited ("Nedbank") facility (see note 12(a)) at June 30, 2009. The Company is currently in default of its loan with Nedbank and as a result the entire loan has been classified as a current liability, which has resulted in the large working capital deficit position. The Company has and continues to be in a period of high capital costs, while it experiences commissioning issues with respect to the recent plant modifications. The Company has negotiated agreements with various suppliers and contractors on extending normal creditor payment terms and is working with Nedbank on delaying the repayment of its debt facility. The Company is currently considering various financing options in order to bring the loan back into good standing.

These unaudited interim consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Certain information and note disclosure normally included in the annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted. These unaudited interim consolidated financial statements should be read together with the Company's audited consolidated financial statements for the year ended December 31, 2008. In the opinion of management, all adjustments considered necessary for the fair presentation have been included in these consolidated financial statements.

The accounting policies followed in preparing these financial statements are those used by the Company as set out in the audited financial statements for the year ended December 31, 2008, except as follows:

Mining Exploration Costs

On March 27, 2009, the AcSB issued EIC-174 "Mining Exploration Costs". In this EIC the Committee provided additional guidance for an enterprise that has initially capitalized exploration costs and has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The EIC should be applied to financial statements issued after March 27, 2009. The Company has adopted EIC-174 in these interim consolidated financial statements.

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Canadian Accounting Standards Board ("AcSB") issued EIC Abstract 173, Credit Risk and Fair Value of Financial Assets and Financial Liabilities, which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC should be applied retrospectively without restatement of prior years to all financial assets and financial liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009.

4. NEW CANADIAN ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by 2011. In accordance with CSA Staff Notice 52-320, as the majority of the Company's current activities are located in South Africa, the Company currently prepares the bulk of its accounts in accordance with IFRS and then converts to Canadian GAAP. Management believes that very limited changes will be required in order to achieve full compliance with IFRS. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling interests, which replace Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for business combinations with acquisition dates on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of this section is permitted. If the Company chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time. The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

5. CAPITAL MANAGEMENT

The Company's objectives in managing its capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions, ensure externally imposed capital requirements relating to its credit facilities are being met, and to provide returns to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. The properties in which the Company currently has an interest are in the exploration, development and pre-commercial production stages; as such the Company remains dependent on external financing to fund many of its activities. In order to carry out its planned acquisition, exploration and development activities, and to pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. In order to maintain or adjust its capital structure, the Board of Directors may approve the issue of shares or the undertaking of other activities as deemed appropriate under the specific circumstances.

The Board of Directors reviews and approves all material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets.

The Company's externally imposed capital requirements, attributable to the Facility entered into by its subsidiary, Ferret Coal (Kendal) (Pty) Ltd., with Nedbank Limited are as follows:

- (a) Debt Service Ratio by Ferret Coal (Kendal) (Pty) Ltd. of 1.3 times;
- (b) Loan Life Cover Ratio by Ferret Coal (Kendal) (Pty) Ltd. of 1.5 times; and
- (c) Debt to Equity Ratio by Ferret Coal (Kendal) (Pty) Ltd. of 70 : 30.

Failure to meet these capital requirements could result in an event of default by the Company's subsidiary under the terms of the Facility Agreement, and Nedbank Limited requiring the immediate repayment of the outstanding balance under the Facility. As at June 30, 2009, Ferret Coal (Kendal) (Pty) Ltd. was not in compliance with all of these externally imposed capital requirements. The Company has been in discussions with Nedbank and to date Nedbank has not formally notified the Company that it is in default. The Company is working with Nedbank on delaying the repayment of its debt facility and is considering various financing options to bring the loan back into good standing.

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

6. FINANCIAL RISK FACTORS

The Company's financial risk exposures and their impact on the Company's financial instruments are summarized below:

(a) Fair value of financial instruments

The estimated fair value of the Company's financial instruments has been determined based on the Company's assessment of available market information and appropriate valuation methodologies. However, these estimates may not necessarily be indicative of the amounts that the Company could realize in a current market exchange.

The Company's financial instruments are primarily comprised of cash and cash equivalents, restricted cash, accounts receivable, investments, long-term loans, accounts payable and accrued liabilities, and credit facilities. The carrying values of these items, excluding credit facilities approximate their fair values due to the relatively short-term expected maturities of these instruments and/or the short-term that has passed from inception of these instruments. The fair values of long-term loans and investments were calculated based on market information and the Company's best estimate. The fair value of the credit facilities approximates carrying value due to the short period of time that has passed from inception of the financial instrument.

The Company has designated its cash and cash equivalents, including restricted cash, as held-for-trading, which are measured at fair value. Financial instruments included in accounts receivable and long-term loans are classified as loans and receivables, which are measured at amortized cost. Credit facilities and accounts payable and accrued liabilities and other current liabilities are classified as other financial liabilities, which are measured at amortized cost.

Investments (excluding the investment in Homeland Uranium Inc.) are classified as available for sale. The Company recorded a mark-to-market gain of \$1,189,445 and \$3,425,941 for the three and six months ended June 30, 2009 on its investments.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are primarily transacted in Canadian dollars and in South African Rand. The Company has funded certain exploration, development and administrative expenses in South Africa and the United Kingdom on a cash basis using funds converted from its bank accounts held in Canada. The South African operations are now funded locally by way of the Nedbank Facility and utilizing cash held in South African Rand with South African financial institutions. Until "Completion" as defined in terms of the Nedbank Facility Agreement, i.e. until the commissioning of the Kendal Mine is complete and operations are at steady state, all cash held or generated in South Africa must remain in South Africa under the security provisions of the Nedbank operating loan.

The Company commenced selling coal in the third quarter of 2008 and such sales are currently predominately denominated in South African Rand, the same currency in which the operating costs are incurred.

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

6. FINANCIAL RISK FACTORS (Continued)

(b) Foreign currency risk (continued)

The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The Company held the following cash and cash equivalents, denominated in foreign currencies, at:

	June 30, 2009	December 31, 2008
Canadian Dollars	\$ 857,428	\$ 596,526
United States Dollars	27,032	86,655
British Pounds	24,455	7,706
South African Rand	3,736,480	7,098,784
Botswana Pula	3,572	25,487
	\$ 4,648,967	\$ 7,815,158

The foreign currency loss reported in the three months ended June 30, 2009 was primarily the result of the appreciation in the exchange rate of the South African Rand relative to the Canadian Dollar. A small exchange loss was reported in the first quarter of 2009 as the exchange rate of the South African Rand relative to the Canadian Dollar was virtually unchanged.

(c) Commodity price risk

The Company is exposed to price risk with respect to commodity prices. Homeland closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(d) Interest rate risk

The Company has cash balances and, through a subsidiary company, senior interest-bearing debt. The Company's current policy is to hold its cash balances with reputable banking institutions in Canada, South Africa, the United Kingdom and Mauritius and to invest excess cash in investment-grade short-term deposit certificates where applicable. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

The Company is exposed to interest rate risk on its variable rate debt. At June 30, 2009, the outstanding balance on the Company's long-term credit Facility amounted to \$20,099,700 (ZAR 133.8 million). A one percent increase or decrease in the interest rate could result in an approximate increase or decrease to net loss of \$160,000

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

6. FINANCIAL RISK FACTORS (Continued)

(e) Credit risk

Credit risk is the risk that a third party might fail to fulfill its performance obligations under the terms of a financial instrument. The Company's credit risk is primarily attributable to cash and cash equivalents, accounts receivable, deposits and prepaid expenses and long-term loans. Cash equivalents consist of overnight deposits and savings accounts, which have been placed with reputable financial institutions, primarily in Canada and South Africa, from which management believes the risk of loss to be remote. Financial instruments included in accounts receivable, and deposits and prepaid expenses consist of sales receivables on 30-day terms, goods and services tax due from the Federal Government of Canada, value added tax due from the department of Inland Revenue in South Africa, and deposits with and receivables from unrelated companies. Management believes that the credit risk concentration with respect to financial instruments included in accounts receivable and deposits and prepaid expenses is low. Long-term loans have been made to entities in which the Company has a commercial interest in the technology being developed, and in which the Company's technical management believes there is a reasonable probability of successful implementation, or where the Company has the contractual ability to ensure repayment in the short-term through the successful commissioning of the Kendal Colliery.

(f) Liquidity risk

Liquidity risk is the risk that a financial instrument cannot be eliminated quickly, by either liquidating it or by establishing an off-setting position. The Company addresses the capital management process as described in note 5.

The Company's approach to managing liquidity risk is to attempt to ensure that it will have access to sufficient liquidity to meet liabilities as they fall due. As at June 30, 2009, the Company had cash and cash equivalents of \$4,648,967 (December 31, 2008: \$7,815,158) available to settle current liabilities of \$29,602,578 (December 31, 2008: \$6,372,761). The Company is currently in default on its long-term loan (see note 12(a)) and as a result the loan is callable at any time. Therefore, the full amount of the loan, \$20,099,700, has been classified as current. On January 20, 2009, the Company entered into a one-year credit facility, for \$2,500,000, at an interest rate of 10%, secured with the shares that the Company holds in Homeland Uranium Inc. ("HUI"), the provider of the facility. This debt was settled during the quarter by the cancellation of 10,361,052 HUI common shares which the Company owned. On March 6, 2009, the Company received \$3,155,302 from a private placement. Except for \$20,099,700, all of the Company's current liabilities have contractual maturities of 30 days and are subject to normal trade terms. Certain of these payables are currently overdue.

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

7. INVENTORY

Inventory consists of stock-piled run-of-mine ore and finished goods. No amounts with respect to inventory were expensed in the three and six months ended June 30, 2009, as the Company capitalizes its pre-production revenues and costs. Coal inventory was valued at \$3,180,568 at June 30, 2009, consisting of stock-piled run-of-mine ore (\$617,568) and finished goods (\$2,563,000). Coal inventory is pledged as collateral for the existing Nedbank loan.

8. INVESTMENTS

	Note	June 30, 2009	December 31, 2008
Homeland Uranium Inc. - 11,888,948 (2008 - 22,250,000) common shares	(a)	\$ 5,227,116	\$ 10,084,589
Altona Energy Plc - 44,250,000 common shares	(b)	4,163,051	694,725
Aviva Corporation Ltd. - 4,000,000 common shares	(c)	299,616	342,000
Londoloza Mineral and Mining Brokers (Pty) Ltd. - representing a 35% interest, written down to \$1.00 in 2006		1	1
		\$ 9,689,784	\$ 11,121,315

- (a) During the three and six months ended June 30, 2009, the Company recognized an equity loss of \$128,024 and \$190,037 (2008: \$240,986 and \$631,035) on its investment. During the three months ended June 30, 2009 the Company sold 10,361,052 of the shares held in HUI to HUI in settlement of the short-term debt it entered into with HUI in the first quarter of 2009. The transaction was valued at \$2,590,413 resulting in a loss on the sale of its investment of \$2,077,023.
- (b) In February 2008, Homeland issued 2,950,000 common shares in consideration for the purchase of 44,250,000 common shares of Altona Energy Plc ("Altona"). This investment represented a strategic interest in a large Australian coal asset held by a public company listed on the AIM in the United Kingdom. The transaction was valued at \$4,183,992 based on a price of 4.75 pence per Altona common share. Based on the closing price per Altona common share on the AIM on June 30, 2009 of 4.92 pence, the investment has been valued at \$4,163,051 (December 31, 2008 - \$694,725).
- (c) In June 2008, Homeland acquired 4,000,000 common shares of Aviva Corporation Ltd. ("Aviva") at a price of AUD 0.90 per share, for a total investment of \$3,452,538 (AUD 3,609,000, including AUD 9,000 commission). Based on the closing price per Aviva common share on the Australian Securities Exchange on June 30, 2009 of AUD 0.08, the investment has been valued at \$299,616 (December 31, 2008 - \$342,000).

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

9. LONG-TERM LOANS RECEIVABLE

	Note	June 30, 2009	December 31, 2008
Madic Operation (Pty) Ltd.	(a)	1,121,488	915,558
Numin (Pty) Ltd.	(b)	999,500	565,493
African Spirit Trading 307 (Pty) Ltd.	(c)	9,706,119	7,939,614
		<u>11,827,107</u>	<u>9,420,665</u>
Less: Current portion		-	-
Long-term Portion		<u>\$ 11,827,107</u>	<u>\$ 9,420,665</u>

- (a) The Company has advanced a loan to Madic Operations (Pty) Ltd. ("Madic"), in order to capitalize the development of a continuous conveyor system for the mining industry. The carrying value of the loan at June 30, 2009 is \$ 1,121,488. Madic shall repay the loan, plus interest calculated at a rate of 5% p.a., within a period of two years from the date the conveyor system is successfully installed; failing which interest shall accrue at the prime rate of interest until payment in full. In terms of this loan agreement, Homeland is entitled, but not obligated, to purchase at cost a maximum of four Madic continuous conveyor systems.

As part of this agreement, Homeland has acquired 45% of Madic at nominal value, and has simultaneously granted a call option in terms of which it could be compelled to sell 10% (the "Option Shares") back to the vendor at its then market value (including a proportionate interest in any loan account at face value). Should this option be exercised, Homeland would have the further option, *in lieu* of selling the Option Shares, to pay the market value of the Option Shares to the vendor at that time and retain the shares. Homeland is entitled to appoint one of the two directors of Madic.

At the date of the agreement, the Company valued the loan at its present value using a market rate of 14.5%. This resulted in a value of \$919,311 being allocated to the loan and the residual of \$460,689 being allocated to the option. The value of the 45% interest in Madic is nominal; therefore, no value has been attributed to it.

- (b) The Company entered into loan and share purchase option agreements with Numin (Pty) Ltd. ("Numin"), a company associated with Madic that is implementing the Madic system. The carrying value of the loan at June 30, 2009 is \$999,500. This loan bears interest at the prime lending rate less 1% and is repayable within one year of the of the Madic system being operational. Homeland has been granted an option, for a period of three years, to purchase 20% of the issued share capital in Numin for a nominal value of ZAR 1 per share. During the three and six months ended June 30, 2009 the Company advanced additional amounts of ZAR 425,000 (\$56,000) and ZAR 1,916,000 (\$287,800), respectively, to Numin.

Given the uncertain timing or quantum of any additional returns, no value has been attributed to the 45% equity interest in Madic or the option to acquire a 20% equity interest in Numin. As the Madic continuous conveyor system is not yet operational, and therefore neither Madic nor Numin yet has received any revenue from the lease or operation of the system, no portion of the Loan has yet been recorded as short-term.

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

9. LONG-TERM LOANS RECEIVABLE (Continued)

(c) In May 2008, Homeland funded a loan to aid a private Black Economic Empowerment ("BEE") company in South Africa to purchase 26% of Ferret Coal (Kendal) (Pty) Ltd. ("Kendal"). The loan bears interest at the South African prime overdraft rate with the related equity interest in the Kendal Mine pledged as security for the loan. The carrying amount of the loan at June 30, 2009 is \$9,706,119, including accrued interest of \$1,426,494. Repayment of the loan will take place out of dividends or other payments accruing to the borrower in respect of the Kendal Mine, or out of the proceeds of their disposal to a third party purchaser in terms of the loan agreement. The Company's minority BEE partner will be entitled to future earnings based on their respective ownership of shares, but only once this loan account plus interest has been paid. Any outstanding balance on the loan will be repaid to Homeland in 20 years.

10. PROPERTY AND EQUIPMENT

		June 30, 2009		
		Cost	Accumulated Amortization	Net
Plant and machinery	\$	7,813,411	\$ (60,583)	\$ 7,752,828
Motor vehicles		357,209	(77,030)	280,179
Office furniture and equipment		210,079	(94,411)	115,668
Computer equipment		280,032	(132,600)	147,432
Land and buildings		1,702,065	-	1,702,065
Leasehold improvements		250,370	(138,296)	112,074
	\$	10,613,166	\$ (502,920)	\$ 10,110,246
		December 31, 2008		
		Cost	Accumulated Amortization	Net
Plant and machinery	\$	6,076,250	\$ (28,915)	\$ 6,047,335
Motor vehicles		336,538	(69,128)	267,410
Office furniture and equipment		182,940	(67,443)	115,497
Computer equipment		266,067	(92,709)	173,358
Land and buildings		1,562,707	-	1,562,707
Leasehold improvements		235,410	(113,259)	122,151
	\$	8,659,912	\$ (371,454)	\$ 8,288,458

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

11. MINERAL PROPERTIES

Homeland is engaged in the business of the acquisition, exploration, development, and operation of resource properties in South Africa, while evaluating advanced opportunities globally. As at June 30, 2009, the Company retained title, directly or indirectly, to the following properties:

	Net Book Value December 31, 2008	Expenditures During the Period	Net Book Value June 30, 2009
Acquisition expenditures			
Kendal	\$ 2,105,016	\$ -	\$ 2,105,016
Eloff	415,230	-	415,230
Northfield	1,840,201	-	1,840,201
Homeland Botswana	103,679	-	103,679
	<u>4,464,126</u>	<u>-</u>	<u>4,464,126</u>
Deferred exploration costs			
Kendal	7,214,471	9,882,517	17,096,988
Eloff	2,150,326	58,985	2,209,311
Northfield	586,364	2,507	588,871
Homeland Botswana	277,829	144,409	422,238
Vlakovarkfontein	267,030	35,221	302,251
Onbekend	126,739	-	126,739
Other	3,382	-	3,382
	<u>10,626,141</u>	<u>10,123,639</u>	<u>20,749,780</u>
	\$ 15,090,267	\$ 10,123,639	\$ 25,213,906

12. CREDIT FACILITIES

	Note	June 30, 2009	December 31, 2008
Nedbank - Non-revolving facility	(a)	\$ 20,099,700	\$ 10,134,974
Homeland Uranium Inc. - Short-term loan	(b)	-	-
Less: Current portion		(20,099,700)	(2,228,690)
Long-term Portion		\$ -	\$ 7,906,284

- (a) The Company entered into a Term Loan Facility Agreement signed September 29, 2008, with Nedbank Limited to finance the development of a mine at the Kendal property in South Africa. The Facility is secured by guarantees from, and pledges of shares by, certain group companies and is repayable from September 2009 through December 2013. Amounts drawn down under the Facility bear interest at the rate of JIBAR plus 3.15% per annum prior to the Company utilizing the full Facility, and at the rate of JIBAR plus 2.50% per annum following completion (as defined in the Facility). Undrawn amounts are subject to a commitment fee of 0.50% per annum.

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

12. CREDIT FACILITIES (continued)

As at June 30, 2009, Ferret Coal (Kendal) (Pty) Ltd. ("Kendal") was not in compliance with its externally imposed capital requirements and as a result is in default. As the loan is in default it can be called at any time and therefore has been presented as a current liability. The loan is fully secured by all of the assets of Kendal. The Company has been in discussions with Nedbank and to date Nedbank has not formally notified the Company that it is in default. The Company is working with Nedbank on delaying the repayment of its debt facility and is considering various financing options to bring the loan back into good standing.

At June 30, 2009, the Company had drawn down ZAR 125,000,000 (approximately \$18,775,000), (December 31, 2008 - ZAR 75,000,000 (approximately \$11,265,000)). The undrawn amount of the facility of ZAR 25,000,000 (approximately \$3,755,000) is not currently available as the loan is in default. When the loan is brought back into good standing the undrawn amount should be available for further use by the Company. The effective interest rate at June 30, 2009 was 10.675%. Interest of ZAR 8,816,575 (\$1,324,700) has been accrued at June 30, 2009 (December 31, 2008 - ZAR 2,307,551 (\$346,594)).

- (b) On January 20, 2009, Homeland concluded a loan agreement with HUI in the amount of \$2,500,000, at an interest rate of 10%, for a term of one year. On June 1, 2009, the Company settled this debt plus accrued interest of \$90,413 by selling 10,361,052 of the shares held in HUI to HUI.

13. CAPITAL STOCK

Authorized -

Unlimited number of common shares with no par value.

Issued and outstanding common shares	Note	Number of Shares		Share Capital
Balance - December 31, 2008		150,270,478	\$	42,269,384
Option Exercise	(a)	1,000,000		112,900
Loan Placement Fee	(b)	250,000		50,000
Private Placement	(c)	75,792,027		34,532,899
Private Placement	(d)	31,561,671		5,050,000
Private Placement	(e)	15,776,512		3,155,302
Share Issuance Costs		-		(52,428)
Balance - June 30, 2009		274,650,688	\$	85,118,057

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

13. CAPITAL STOCK (continued)

- (a) Stock options amounting to 1,104,183 were exercised on a cashless basis by directors and an officer in 2008. This resulted in 1,000,000 common shares being reserved for issuance at December 31, 2008 with an estimated grant date fair value of the options of \$112,900. The common shares were issued on January 20, 2009.
- (b) The Company received proceeds of \$2,500,000 from a loan with Homeland Uranium Inc. on January 20, 2009 (see Note 12(b)). As part of this transaction the Company issued 250,000 common shares as a placement fee to Homeland Uranium. The common shares were valued at \$0.20 per share representing the trading value at that time.
- (c) On December 30, 2008, the shareholders of the Company elected to settle a US\$30,000,000 obligation to GMR in common shares and consented to the issue of 75,792,027 common shares of the Company at approximately \$0.46 per share. Delivery of these shares was delayed at the request of GMR, but was ultimately completed on February 23, 2009.
- (d) On March 2, 2009, the Company issued 31,561,671 common shares to Appolo Fuels & Diversified Energy Inc. to satisfy the break fee obligation that arose from the termination of the asset purchase agreement between the Company and Appolo.
- (e) On March 6, 2009, the Company completed a private placement with GMR for proceeds of \$3,155,302 resulting in the issuance of 15,776,512 common shares at a price of \$0.20 per common share.
- (f) On May 21, 2009, 1,909,092 common share purchase warrants with an exercise price of \$1.50 per warrant expired. The total value of these warrants is \$344,000, and has been transferred to contributed surplus. There are no common share purchase warrants outstanding at June 30, 2009.
- (g) The following table discloses the change in contributed surplus for the six months ended June 30, 2009:

		June 30, 2009
Contributed surplus - Beginning of period	\$	5,498,317
Stock-based compensation		1,789,451
Exercise of stock options		-
Warrants expired (note 12(f))		344,000
Contributed surplus - End of period	\$	7,631,768

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

14. COMMON SHARE PURCHASE OPTIONS

Fixed Options	Options	Weighted Average Exercise Price
Outstanding at beginning of period	13,360,398	\$ 1.02
Granted	3,500,000	0.20
Exercised	-	-
Expired	(1,164,689)	0.30
Forfeited	(9,762,335)	1.08
Outstanding at end of period	5,933,374	0.62
Options exercisable at end of period	5,133,374	\$ 0.67

The fair value assigned to the stock options granted during the three months ended June 30, 2009 was \$120,000 (2008 - \$3,874,675) and \$275,153 during the six months ended June 30, 2009 (2008 - \$4,090,675). The Company recognized stock based compensation expense of \$46,740 during the three months ended June 30, 2009 (2008 - \$626,807) and \$1,400,565 during the six months ended June 30, 2009 (2008 - \$783,335) and increased contributed surplus by the same amount in respect of stock-based employee compensation awards under the Company's stock option plan. The Company also recognized stock based compensation expense of \$93,836 during the three months ended June 30, 2009 (2008 - \$444,167) and \$388,886 during the six months ended June 30, 2009 (2008 - \$467,792) and increased contributed surplus by the same amount in respect of stock-based non-employee compensation awards under the Company's stock option plan. The estimated grant date fair values were determined using the Black Scholes option pricing model under the following assumptions:

	Three months ended June 30, 2009	Six months ended June 30, 2009
Expected life (years)	5	5
Expected volatility	71%	71%
Expected dividends	0	0
Risk free interest rate	1.94%	2.15%

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

15. SUPPLEMENTAL CASH FLOW INFORMATION

	June 30,	
	2009	2008
Cash and cash equivalents		
Cash	\$ 4,625,717	\$ 14,042,274
Equivalents	23,250	-
	<u>\$ 4,648,967</u>	<u>\$ 14,042,274</u>
	Three months ended June 30,	
	2009	2008
	Six months ended June 30,	
	2009	2008
Supplemental Cash Flow Information:		
Interest paid	\$ 90,462	\$ 824
Change in accrued mineral properties	4,228,608	-
Change in property and equipment	(655,500)	-
Shares issued for payment of transaction break fee	-	-
Shares issued for loan placement fee	-	-
Shares issued to GMR	-	-
Shares issued on purchase of investment	-	-
Income taxes paid	-	-
	<u>\$ 3,663,570</u>	<u>\$ 824</u>
	<u>\$ 44,452,133</u>	<u>\$ 4,222,015</u>

16. RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at the exchange amounts and for the three and six months ended June 30, 2009 are as follows:

- (a) Homeland paid Grove Communications Inc. \$291 during the three month period ending June 30, 2009 (2008 - \$22,290) and \$9,228 during the six month period ending June 30, 2009 (2008 - \$89,081) in fees in respect of investor relations and office administration work undertaken. The owner of Grove Communication Inc. is an officer and former director of the Company. Grove Communications also shared office space with Homeland and contributed \$nil during the three month period ending June 30, 2009 (2008 - \$4,701) and \$3,850 during the six month period ending June 30, 2009 (2008 - \$9,402) towards the office rent and related facilities.

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

16. RELATED PARTY TRANSACTIONS (continued)

- (b) With the leasing of new premises in London in 2008, Juno Special Situations Corporation, a company with which a former director and an officer of Homeland are associated, agreed to share office space. As at June 30, 2009 the Company had invoiced \$69,385 (June 30, 2008 - \$0) in rental and recoveries of costs, of which \$31,551 remains outstanding. This amount is unsecured, non-interest bearing with no fixed terms of repayment.
- (c) Payments to a South African company owned by a director and significant shareholder of subsidiaries of the Company for services rendered in respect of the securing and maintaining of prospecting rights totaled approximately \$35,000 and \$65,000 for the three and six months ended June 30, 2009 versus \$31,352 and \$63,872 for the three and six months ended June 30, 2008.
- (d) Legal services are provided by a law firm of which an officer of the Company is a partner. Homeland paid \$102,494 during the three month period ending June 30, 2009 (2008 - \$55,182) and \$256,056 during the six month period ended June 30, 2009 (2008 - \$127,137). Included in the accounts payable and accrued liabilities at June 30, 2009 was \$49,394 (2008 - \$nil) owing to this firm. The amount is unsecured, non-interest bearing, with no fixed terms of repayment.
- (e) Certain travel and consulting expenditures, totalling \$141,533, incurred by GMR, but initially paid for by the Company remain outstanding at June 30, 2009. Three of the Company's directors are employees of GMR.

17. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Environmental Contingencies

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

(b) Management Contracts

The Company is a party to agreements with officers that contain change of control clauses that have been triggered pursuant to which officers are entitled to a termination payments.. In certain instances a change of control is defined as inter-alia the acquisition of 30% or more of the Company's issued and outstanding shares. As a result of a previous placement of shares with GMR, parties were entitled to exercise this clause in their contract. During the quarter ended June 30, 2009, payments totalling \$638,000 were made subject to these agreements and future payments of \$438,000 will become due.

In addition, the Company is party to an agreement where a change of control is defined as a change of more than 50% of the directors of the Company. As a result of the recent changes to the

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

Board, an officer of the Company is entitled to exercise this clause in their contract pursuant to which a payment of \$200,000 would be owing.

18. SEGMENTED INFORMATION

Substantially all of the Company's property and equipment is located in South Africa.

19. RESTATEMENT

- (a) For the three and six months June 30, 2008, the Company originally recorded their investment in HUI using the cost method of accounting. The Company is now recording the investment under the equity method of accounting. During the three and six months ended June 30, 2008, the Company held a 42% interest in HUI. The Company's 2008 unaudited interim consolidated financial statements have been restated to reflect the impact of the equity loss from the investment.
- (b) For the three and six months ended June 30, 2008, the Company originally recognized current future income tax assets of \$622,348 and \$643,553 respectively. Due to the "more likely than not" test of recognizing these future income tax assets not being met, the Company has restated the 2008 unaudited interim consolidated financial statements to reverse the future income tax assets and the future income tax expenses included in the statements of operations.
- (c) The Company originally recorded foreign exchange losses and gains as a component of mineral properties. For the three months ended June 30, 2008, a gain of \$277,237 was recorded and a loss of \$492,769 for the six months ended June 30, 2008. Due to the foreign exchange losses and gains not being directly attributable to the development of the property, the 2008 unaudited interim consolidated financial statements have been restated to reallocate these amounts to the foreign exchange loss in the statement of operations.

As a result of the above changes, the Company has amended its unaudited interim consolidated financial statements for the three and six months ended June 30, 2008 as follows:

HOMELAND ENERGY GROUP LTD.
NOTES TO THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2009 AND 2008
(Stated in Canadian Dollars)

19. RESTATEMENT (continued)

	Note	Previously Reported	Adjustments	Restated
Consolidated Statement of Operations and Deficit for the three months ended June 30, 2008				
Foreign exchange gain (loss)	(c)	(546,394)	277,237	(269,157)
Equity loss from investment in Homeland Uranium Inc.	(a)	-	(240,986)	(240,986)
Future income taxes	(b)	-	(21,205)	(21,205)
Net loss for the year		(4,159,144)	15,046	(4,144,098)
Consolidated Statement of Cash Flows for the three months ended June 30, 2008				
Net loss for the period		(4,159,144)	15,046	(4,144,098)
Foreign exchange		(21,205)	(277,237)	(298,442)
Equity loss from investment in Homeland Uranium Inc.		-	240,986	240,986
Future income taxes		-	21,205	21,205
Consolidated Statement of Operations and Deficit for the six months ended June 30, 2008				
Foreign exchange gain (loss)	(c)	(463,955)	(492,769)	(956,724)
Equity loss from investment in Homeland Uranium Inc.	(a)	-	(631,035)	(631,035)
Future income taxes	(b)	-	66,585	66,585
Net loss for the year		(6,971,121)	(1,057,219)	(8,028,340)
Consolidated Statement of Cash Flows for the six months ended June 30, 2008				
Net loss for the period		(6,971,121)	(1,057,219)	(8,028,340)
Foreign exchange		66,585	492,769	559,354
Equity loss from investment in Homeland Uranium Inc.		-	631,035	631,035
Future income taxes		-	(66,585)	(66,585)